



Newsletter

105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-5404

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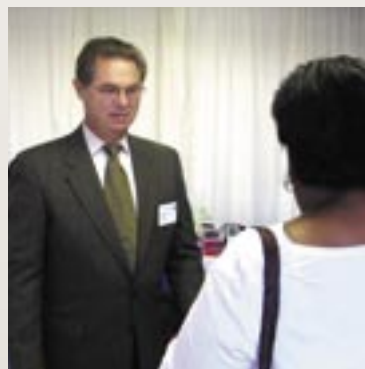
EXPO 2005 a Great Success!

On September 13, 2005 Kentucky Deferred Comp held our annual Participant Education Expo at the Civic Center in Frankfort. Featuring a new, more flexible format this year's Expo was an unqualified success. Approximately 1000 individuals (participants and potential participants) attended. In fact, attendance was so heavy that during the afternoon we temporarily ran out of Expo Packets. Although more soon arrived, some attendees may inadvertently have failed to receive one. If you missed out on your Expo Packet, or were unable to attend and would like one, please call our Marketing Staff at 502.573.7925, or 800.542.2667.

Based on their own needs and schedule attendees had numerous opportunities to meet with Deferred Comp Staff, Marketing Representatives and Fund Representatives; enroll in the Plans; make changes to their account; attended one or more Education Workshops; ask questions about Deferred Comp; or pick up additional information on the Plans or fund offerings.



Responses from the attendees were overwhelmingly positive. If you attended, we hope you enjoyed and profited from the experience and that we met your needs. If you were unable to attend, we hope you will be able to join us in 2006 for an even bigger and better Expo.



Kentucky Deferred Comp wishes to express its appreciation to Governor Fletcher for allowing state employees up to two (2) hours paid time off to attend Expo, to all employers who made it possible for their employees to attend, and to the mutual fund families who participated. Special thanks goes to Nationwide Retirement Solutions, our Marketing firm, who coordinated and helped sponsor yet another award winning Kentucky Deferred Comp Participant Education Expo.

A Fond Farewell

Kentucky Deferred Comp bids a fond farewell to Herman H. Mollmann, Special Marketing Advisor for Nationwide Retirement Solutions (NRS), our Record-Keeping, Marketing, and Communications firm.

Herman, who retired September 30, 2005, had been involved with Kentucky Deferred Compensation for twenty-two years. He played critical roles in helping Kentucky establish such popular and innovative programs as: Loans, Participant Education Expos, Participant Asset Allocation Awareness Campaign, and the Self Activated Voice Entry Response (SAVER) System. Since 1983, his progressive approaches and outstanding work ethic have played a significant role in the success of all venues of Kentucky Deferred Comp. He will be missed by all who worked with him.

All Kentucky participants owe Herman Mollmann (pictured at right) a big "Thank you!" We know you join with us in wishing him the happiest of retirements and in extending a permanent invitation to visit us whenever his schedule permits.

Fixed Contract Fund Rate

A blended net crediting rate that will yield **4.20%** will be credited for the Fourth Quarter of 2005. The rate was **4.20%** for the previous quarter, as well.

New Benefit for Grayson County School Employees

In what is becoming an exciting trend in benefits for our state's public school employees, the Grayson County Board of Education has joined the Anderson County Board of Education to offer certified and classified employees a Board paid match to a portion of their employees' pre-tax deferrals into the Kentucky Deferred Compensation Program.

Anderson County Schools was the trend setter in providing this benefit to public school district employees, beginning in September 1995. They are now joined by the Grayson County Schools. Our congratulations go out to the employees of the Grayson County Schools, along with our thanks and admiration to Superintendent Teddy White and the members of the Grayson County Board of Education for their inspired leadership demonstrated by providing their valued employees with this excellent benefit.

Grayson County's agreement commits the school board to match 50% of every dollar deferred by the employee, not to exceed 2% of the employee's salary. For example, if the employee decides to defer 2% of their salary into their personal Kentucky Deferred Compensation account, the school district will match 50% of that, thus providing an additional 1% for the employee's account. If an employee's salary is \$30,000, and the individual chooses to defer 2%, or \$600 annually, then the school board will match 50% of that amount, thus providing an additional \$300 to that employee's account.

With the match, for every \$600 deferred from the employee's paychecks throughout the year, the employee gets \$900 invested in their personal Kentucky Deferred Compensation account. An astounding 98% of the certified and classified employees in the Grayson County Schools have signed up to defer a portion of their salary and take advantage of this wonderful new benefit, clearly demonstrating the employee appreciation for the benefit offering.

Grayson County Superintendent Teddy White explained the school district's rationale for providing this new employee benefit.



He stated, "We felt it presented an opportunity for the Board to give the employees a raise above the state mandate, and at the same time encourage our employees to supplement their retirement. We hope this additional raise will result in the younger personnel starting to save at an earlier age. It gives all employees a tax savings and provides options on purchasing time, if needed, as retirement approaches. We truly believe it is a win win situation for all involved."

Lori Boone-Hunt, Regional Marketing Representative for the Kentucky Deferred Compensation Authority,

who worked closely with the school district leadership to bring about this new employee deferral match stated, "I am proud to have been involved with the leadership of the Grayson County Schools to make them only the second school district

in Kentucky to provide this wonderful employee benefit. Obviously the school district leadership recognizes how important retirement savings have become in today's economy and wants to reward employees who make the commitment to save for their own retirement."

The Kentucky Deferred Compensation Authority is proud to be a partner in providing this new benefit to educators and school district employees in Anderson and

Grayson counties. This type of employee savings match benefit, relatively common in the private sector, has become one of the most valued employee benefits in America today. We believe this new trend will continue in school districts across Kentucky. It is a relatively simple enhancement to any employee's benefit package.

For more information

Our regional marketing representatives are available to discuss this program with other school districts as well, and are anxious to make this benefit available to your school employees, or you may call the Frankfort office toll free at 800.542.2667 for assistance.

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of the certified and
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Schools have signed up"***

Authority Board Actions Approved at August Meeting

At their regular quarterly meeting on Wednesday, Aug. 17, 2005 the Authority Board of Trustees (Board) approved the following changes to the Spectrum of Investment Options (Spectrum) as recommended by Aon Investment Consulting (the Authority's new Mutual Fund Investment Consultant):

1 Add two new funds effective beginning of business Friday, Oct. 28, 2005:

- Western Asset Core Plus Bond Instl Fund – WACPX
- Vanguard Explorer Fund Adm – VEXRX

(See page 4 of this Newsletter for additional information on these funds.)

2 Close and remove the following six funds effective close of business Thursday, Nov. 18 2005: (You must have your forms in by close of business 11/17/05)

CLOSING FUND	DEFAULT FUND
Vanguard GNMA Fund	Vanguard Total Bd Mkt Index Fund – VBTIX
Vanguard Long-Term Investment-Grade Fund	Western Asset Core Plus Bond Instl Fund – WACPX
Franklin Small-Mid Cap Growth Fund	T. Rowe Price Mid-Cap Growth Fund – RPMGX
Federated Kaufmann Fund (Class K)	T. Rowe Price Mid-Cap Growth Fund – RPMGX
Brown Capital Management Small Co Fund	Vanguard Explorer Fund Adm – VEXRX
Janus Global Technology Fund	Vanguard Institutional Index Fund – VINIX

The Authority Board regularly monitors the funds offered under the Plan with the objective of maintaining an array of quality investments that offer a range of different risk and return characteristics. This approach is intended to give participants the ability to appropriately diversify their accounts according to each individual's retirement planning needs.

For the past few months, the Authority Board has worked closely with Aon Investment Consulting, a Registered Investment Advisor, to develop a core menu of funds that is both comprehensive and streamlined enough to make it responsive to the needs of broadest range of plan participants, without being unduly complicated or burdensome. Fund performance and fees were also considered. As a result of this process the Board made the

fund changes noted above. The Board feels these changes are necessary to move the Plan investment menu in the desired direction of quality, simplicity, and completeness.

It is not necessary for you to take any action. The six (6) funds will automatically be mapped to the default fund as indicated in the chart at the close of business on November 18, 2005.

However, if you prefer to move your assets in the closing funds to any other fund(s) offered by the Authority, you may do so prior to 4:00 p.m. EST on November 17, 2005, by using one of the following methods:

SAVER – our self-activated voice entry response line. Simply dial 800.793.4401 from a touch-tone phone and enter your Social Security Number and Pin number.

Our Web site, kentuckydcp.com – If you have never established a password, click on "New User Setup" in the upper right-hand corner of the second page. You will be asked to enter your Social Security Number (no spaces or dashes) and your birth date. On the next page, you will be given instructions on how to establish a password. Once you have accessed your Account Information page, click on "Transactions," located on the left side of the page. If you wish to move the existing balance you have in a closing fund, click on "Exchange". To change the way your future dollars will be invested, click on "Allocation Change".

Note: If you are currently deferring into one or more of the funds listed above, it will be necessary for you to do both an Exchange and an Allocation Change. Letters explaining the changes have been sent to affected participants.

Contact us – Our office hours are from 8:00 a.m. to 5:00 p.m. ET Monday through Friday. Outside of Frankfort, call toll-free 800.542.2667. In Frankfort, we can be reached by dialing 502.573.7925. Your local marketing representative is also available to assist you in changing your future allocations.

Important Reminder:

The Kentucky Public Employees' Deferred Compensation Authority (Authority) has amended the Plan Document for both the 457 and 401(k) plans. The amended documents have changed the date a plan participant incurs a required minimum distribution (RMD) from the plans. The first RMD is incurred in the calendar year the participant reaches age 70.5 years regardless of whether the participant is working for a participating employer or terminated from employment.

How will this change affect me?

1. Participants turning age 70.5 years of age in year 2005.
 - You will incur your first RMD in year 2005. This must be paid to you by your required beginning date (RBD), April 1, 2006.
2. Participants turning age 70.5 years of age or older prior to year 2005.
 - You will incur a RMD for year 2005 which must be paid to you by Dec. 31, 2005.

Fund Focus

For information only – NOT a recommendation for investment

Western Asset Core Plus Bond Portfolio

Ticker: WACPX **SAVER #** 2520
Category: Bond **Inception:** 7/7/1998
Total Fund Assets: \$5.2 billion
Dividend Frequency: Monthly

Investment Objective

To maximize total return, consistent with prudent investment management and liquidity needs, by investing to obtain an average duration of generally 2.5 to 7 years.

Investments

The Fund invests primarily in U.S. dollar-denominated fixed income securities and other debt instruments of domestic and foreign entities, including corporate bonds, securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, mortgage-backed securities and money market instruments. The Fund may invest up to 20% of its total assets in non-U.S. dollar-denominated securities.

Portfolio Management

The Fund is managed on a team basis by Western Asset Management Company. Founded in 1971, Western Asset specializes in fixed income investment management for institutional investors.

Investment Process

Western Asset's opportunistic approach seeks to capitalize on inefficiencies in fixed income markets to add incremental value to investment portfolios. The firm places significant emphasis on risk management since the general objective is to exceed benchmark returns while approximating benchmark risk. When making investment decisions, Western Asset focuses on such critical areas as sector allocation, issue selection, duration weighting and term structure.

The Fund emphasizes diversification, the use of multiple strategies and identification of long-term trends. The three key factors that determine the allocation decisions for the Fund are: the construction of an outlook for fundamental economic activity, the review of historical yield spreads or corporate debt versus Treasuries and the evaluation of changes in credit quality and its impact on prices.

Vanguard Explorer Fund

Ticker: VEXRX **SAVER #** 2510
Category: Small Cap Growth
Inception: 11/12/2001
Total Fund Assets: \$1,686,490,681

Investment Objective

Vanguard Explorer Fund seeks long-term growth of capital.

Investment Strategy

The fund invests mainly in the stocks of smaller companies (which, at the time of purchase, typically have a market value of less than \$2 billion). These companies are considered by the advisors to have above-average prospects for growth, but often provide little or no dividend income. The fund is managed by five advisors; each runs a portion of the fund independently, although all emphasize small-capitalization stocks.

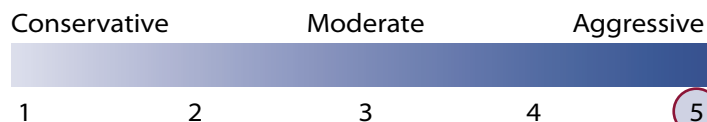
Who Should Invest

- Investors seeking long-term growth of capital.
- Investors with a long-term investment horizon (at least five years)

Who Should Not Invest

- Investors unwilling to accept significant fluctuations in share price
- Investors seeking dividend income

Over-all Risk Level*



**The Explorer Fund holds stocks of small U.S. companies, which historically have been more volatile in price than larger company stocks. As a result, the fund carries a higher level of risk than most funds that hold large stocks.*



Contact Us!

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